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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D. C. 20554

In the Matter of	)	
	)	
Simplification of the Depreciation	)	CC Docket No. 92-296
Prescription Process	)	

REPLY COMMENTS
OF THE
<u>UNITED STATES TELEPHONE ASSOCIATION</u>

The United States Telephone Association (USTA) respectfully submits its reply to the comments filed December 17, 1993 in the above-referenced proceeding.

In its comments, USTA expressed its concern regarding the unnecessary bias in the lower end of the range. USTA urged the Commission to adopt alternative treatment of Analog Circuit Equipment, Underground Cable, other Non-Metallic Cable accounts and General Purpose Computers as recommended in the study performed by Technology Futures, Inc. and attached to USTA's comments. Finally, USTA requested that ranges be adopted for all accounts at the present time. The majority of commenting parties concurred with USTA's comments.

The record is clear that the Commission will not achieve the policy goals of depreciation simplification articulated in the Report and Order under its current implementation proposal. In order to accomplish the Commission's goals, the majority of commenting parties agree that ranges should be established for all accounts at this time and that the ranges should be based on forward-looking data.

While a few parties supported the Commission's approach in proposing ranges for only some of the accounts,[1] the majority of parties recognize that the full value of depreciation simplification will not be achieved until all accounts are simplified.[2] The Utah Division of Public Utilities (Utah) states that "real simplification and [the] potential time and expense savings of the process cannot be realized without all accounts being included in the process."[3] MCI also acknowledges that "LECs can achieve maximum benefit only once the Commission has established ranges for all capital accounts..."[4]

Many exchange carriers describe the difficulties that delay in the simplification of the major technology accounts will cause. "These delays essentially mean that under the BFRO [Basic Factor Range Option], meaningful depreciation simplification for carriers that have aggressively deployed new technology is purely illusory...BellSouth currently has a significant depreciation reserve deficiency, 95% of which is in the five major technology accounts. Changes in the marketplace will greatly exacerbate that deficiency if the Commission fails to provide meaningful opportunities for the price cap LECs to depreciate their plant in

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[1]NARUC at 5 and Oklahoma Corporation Commission (Oklahoma) at 2.

[2]See, for example, U S WEST at 6, Southwestern Bell at 2, and Ameritech at 6.

[3]Utah Division of Public Utilities at 1.

[4]MCI at 2.

a timely manner."[5] SNET notes that "[t]he potential efficiencies of the ranges approach will be attained only with all accounts included in the simplification procedures. Conversely, the absence of these critical accounts--the very ones so affected by changing technologies--does not move the industry ahead to more progressive practices than we have today."[6] The Commission should make every effort to develop ranges for all accounts so that those companies scheduled for their triennial represcription in 1994 can take advantage of simplification.

In addition, the Commission should reassess its proposal and set ranges on a forward-looking basis to better reflect technological change and competitive pressures. "Failure to do so could force LECs to choose among abandoning the ranges and filing full depreciation documentation; slowing the pace of technology deployment; or filing within the ranges and thereby potentially creating future reserve shortfalls that will lead to significant impairment of future financial performance...Because competitive markets will not allow LECs to recover under-depreciated plant, the mistakes of the past can not simply be repeated without putting LECs at a severe economic disadvantage."[7] Utah sounded a more dramatic note. "The general direction of local competition, and the requirements to modernize networks to meet overall national and international

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[5]BellSouth at 8-9.

[6]SNET at 2.

[7]Bell Atlantic at 3,5.

market and technology demands, is now effecting all LEC service areas. Corporations that continue to make investment decisions based on the current forms of regulation are committing compatibility and competitive suicide for the future."[8] Pacific also concluded, "the pace needed to recover current investment is influenced by the technological advances that spur new investment. Thus, forward-looking data should be considered in establishing ranges for factors."[9]

Finally, several specific comments require a direct response. For instance, the Missouri Public Service Commission expresses some concern that companies may no longer maintain records for range accounts.[10] There is nothing in the record of this proceeding to warrant that concern.

While MCI supports the Commission's proposal for ranges to be used by exchange carriers, it is clear that MCI is not utilizing service lives such as those proposed by the Commission.[11] MCI's recent announcement that it will compete with exchange carriers in the local service market underscores the competitive disadvantage which the Commission's limited ranges place on exchange carriers. The Commission should institute ranges which more accurately reflect the impact that technology, competition and market pressures will have on

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[8]Utah at 1-2.

[9]Pacific at 5. See, also GTE at 4.

[10]Missouri Public Service Commission at 6.

[11]USTA at 2.

exchange carrier investment. The effect of competition is to shorten equipment lives. "The proposed ranges do not give proper weight to the competitive environment."[12] MCI is also incorrect in its discussion of the proposed ranges.[13] Contrary to MCI's assertion, the rate base decreases with higher depreciation expense. Finally, MCI misunderstands the relationship of investment to retirements.[14] As USTA explained in its comments, "[d]epreciation is by its nature forward-looking, and it is intended to anticipate what will happen in the future with assets."[15]

As explained in its Petition for Reconsideration filed December 3, 1993 in this docket, USTA is concerned about the inconsistencies which exist between the objectives stated in the Report and Order and the Commission's proposed implementation plan. In the Report and Order, the Commission states that it prescribes depreciation rates based on carriers' investment plans; yet, the Commission has proposed ranges which are inconsistent with carriers' views of the future. Such inconsistencies must be resolved and ranges instituted which reflect realistic market and technology trends.

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[12]NYNEX at 5.

[13]MCI at footnote 11.

[14]MCI at 3-4.

[15]USTA at 3.

Based on the record established to date, USTA urges the Commission to implement ranges consistent with USTA's comments in this proceeding.

Respectfully submitted,

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January 21, 1994

CERTIFICATE OF SERVICE

I, Linda Kent, do certify that on January 21, 1994, copies of the Reply Comments of the United States Telephone Association were either hand-delivered or deposited in the U. S. mail, first-class postage pre-paid, to the persons on the attached service list.

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